

Message Text

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INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 INT-05 OES-03

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 1817

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY LISBON

USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 12336

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: SCHMIDT AND WILSON CONFER IN HAMBURG -
ECONOMIC HIGHLIGHTS

REF: BONN 12229

1. SUMMARY. BRITISH EMBOFF FILLED IN EMBOFF ON ECONOMIC
VIEWS DISCUSSED BY PRIME MINISTER WILSON AND CHANCELLOR
SCHMIDT IN HAMBURG ON JULY 24, THUS SUPPLEMENTING THE
BRIEFING GIVEN BY VON WELL TO THE AMBASSADOR (SEE REFTEL).
AT THE REQUEST OF THE GERMANS, THE CHANCELLOR AND PRIME
MINISTER HAD A PRIVATE ("FOUR EYES") MEETING OF AN
HOUR AND A HALF'S LENGTH, FOLLOWING WHICH THEY WERE
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JOINED BY THEIR RESPECTIVE FOREIGN MINISTERS. TOPICS

COVERED WERE THE NEW UK ECONOMIC POLICY AND OUTLOOK, GERMAN ECONOMIC POLICY AND FEARS OF INCREASINGLY HIGHER UNEMPLOYMENT, THE CAP, RAW MATERIALS, AND PORTUGAL.

END SUMMARY.

2. ACCORDING TO BRITISH EMBOFF, CHANCELLOR SCHMIDT WAS APPARENTLY QUITE CONCERNED ABOUT THE ECONOMIC SITUATION IN THE UK AND REQUESTED THAT PRIME MINISTER WILSON INFORM HIM OF THE CURRENT DEVELOPMENTS AND OUTLOOK. UPON HEARING THE PRIME MINISTER'S PRESENTATION SCHMIDT RESPONDED THAT HE WAS ENCOURAGED BY THE NEW TURN IN BRITISH ECONOMIC POLICY AND ESPECIALLY TO HEAR OF THE SUPPORT BEING OFFERED BY THE TRADE UNIONS. SCHMIDT THOUGHT IT A PROMISING POLICY AND HOPED THAT IT WOULD BE SUCCESSFUL IN REDUCING THE RATE OF INFLATION.

3. SCHMIDT SAID THAT THE GERMAN ECONOMY REQUIRES A STABILIZATION OF INVESTMENT IN CERTAIN SECTORS OF THE ECONOMY SINCE EXPORT ORDERS HAVE DECREASED SO MUCH RECENTLY. HE SAID THAT THE FRG MIGHT ENHANCE THE DOMESTIC DEMAND OF CONSUMERS IN CERTAIN AREAS OF THE ECONOMY AS PART OF A NEW ECONOMIC PROGRAM TO BE LAUNCHED IN THE LATTER PART OF AUGUST. THE CHANCELLOR SAID THAT THE UK AND THE FRG SHOULD NOT PURSUE THE SAME NATIONAL ECONOMIC POLICIES BUT RATHER ONES THAT ARE COMPLEMENTARY. PRIME MINISTER WILSON STATED SOMEWHAT ALONG THE SAME LINES THAT THE HARMONIZATION OF ECONOMIC POLICIES WITHIN THE ADVANCED INDUSTRIAL COUNTRIES NEEDS TO BE SOUGHT THROUGH A DIVERGENCE OF NATIONAL POLICIES, EACH POLICY ATTUNED TO THE REQUIREMENTS OF THAT COUNTRY BUT ALL OF THEM ADDING UP TO A COMPREHENSIVE POLICY DEALING WITH INFLATION. IT IS THE AIM OF GERMAN POLICY, SCHMIDT SAID, NOT ONLY TO MAINTAIN AND IF POSSIBLE ENHANCE DOMESTIC DEMAND, BUT ALSO TO ENHANCE WORLD-WIDE DEMAND BY COORDINATION WITH OTHERS. BOTH OF THESE COURSES OF ACTION WOULD BE AIMED AT THE SAME GOAL OF LIMITING INFLATION ON THE ONE HAND AND ON THE OTHER OF INCREASING PRODUCTION AND THEREBY EMPLOYMENT. IN THIS CONFIDENTIAL

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LATTER CONNECTION THE CHANCELLOR EXPRESSED HIMSELF IN

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 12336

THE MOST EMPHATIC MANNER CONCERNING HIS WORRIES THAT THE ECONOMY COULD TURN IN A DIRECTION THAT WOULD LEAD TO A REPETITION OF THE L930'S. IN THIS IT WAS BELIEVED HE WAS REFERRING SPECIFICALLY TO GERMANY AND THE SPECTRE OF HIGH UNEMPLOYMENT RATES TURNING THE PUBLIC TOWARD RADICAL SOLUTIONS AND POLITICAL LEADERSHIP. .

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4. CONCERNING THE COMMON AGRICULTURAL POLICIES OF THE EC, PRIME MINISTER WILSON INDICATED THAT PRICES TO SOME EXTENT HAVE BECOME A LITTLE MORE REALISTIC RECENTLY. SCHMIDT SAW THE NEED FOR A STOCKTAKING OF THE
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CAP WHICH, HE SAID, DID NOT MEAN A CHANGE IN THE FOUNDATIONS AS LAID DOWN IN THE TREATY OF ROME BUT MIGHT MEAN A CHANGING OF THE OPERATIONS WHICH HAVE LED TO THE SURPLUSES OF MILK, WINEWINE AND BUTTER. HE LOOKED FORWARD TO DEALING WITH THIS PROBLEM AT THE NEXT MEETING OF THE PRIME MINISTERS IN NOVEMBER.

5. THERE WAS A LIMITED DISCUSSION OF THE RAW MATERIALS ISSUE IN WHICH A "MEASURE" OF AGREEMENT ON THESE POLICIES WAS INDICATED. SCHMIDT REITERATED FRG SUPPORT FOR THE SALE OF 30 TO 33 PERCENT OF THE IMF GOLD, THE PROCEEDS OF WHICH WOULD BE DEVOTED TO THE STABILIZATION OF EXPORT EARNINGS OF THE LEAST DEVELOPED COUNTRIES. WILSON FELT THAT A VERY WIDE RANGE OF MEASURES WAS NEEDED TO DEAL WITH THE RAW MATERIALS PROBLEM. COMMODITY AGREEMENTS ARE NEEDED IN SOME CASES AND COMMODITY ARRANGEMENTS OF A DIFFERENT SORT IN OTHERS. EARNINGS STABILIZATION OR EVEN IMPROVEMENT RATHER THAN "COMMODITY STABILIZATION" MIGHT BE MORE IN ORDER FOR SOME OTHER COUNTRIES AND IN THIS THE PRIME MINISTER ACCORDED MORE WITH THE CHANCELLOR.

6. PRIME MINISTER WILSON SAID THAT HE REGRETTED THE FAILURE OF THE NINE TO DEVELOP A SINGLE POLICY ON ENERGY AND TO SOME EXTENT THE RESULTANT ENERGY FINANCING PROBLEM. HE THOUGHT THAT THE COMMUNITY SHOULD ARRIVE AT AN AGREED VIEW AND THEN SOMEONE SHOULD BE APPOINTED TO SPEAK FOR THE COMMUNITY ON THE SUBJECT WITH SUPPORT FROM THE REST AT THE VARIOUS FORUMS WHERE THE ENERGY PROBLEM WILL BE DISCUSSED. CHANCELLOR SCHMIDT AGREED TO THIS AND ADDED THAT IT WAS NECESSARY TO MAINTAIN ONE'S OWN DOMESTIC ENERGY SUPPLIES SUCH AS COAL AND LIGNITE AND TO DEVELOP SUBSTITUTE SOURCES SUCH AS NUCLEAR ENERGY AS WELL AS THE NECESSITY FOR THE QUICK DEVELOPMENT OF NORTH SEA OIL.

7. ALTHOUGH THE BRITISH OFFSET AGREEMENT WAS INITIALLY ON THE AGENDA IT WAS SUBSEQUENTLY REMOVED. IT IS NOT KNOWN WHETHER THE PRINCIPALS DID, HOWEVER, TOUCH ON THIS "SENSITIVE" SUBJECT IN THEIR WIDERANGING TALKS.

8. WILSON STATED TO THE PRESS SUBSEQUENT TO THE CONFIDENTIAL

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MEETING THAT LONG-TERM FINANCIAL ASSISTANCE FROM THE GERMAN GOVERNMENT WAS NOT EVEN MENTIONED IN HIS TALKS WITH CHANCELLOR SCHMIDT.

9. BOTH AGREED THAT ECONOMIC AND FINANCIAL AID FOR PORTUGAL WOULD BE FORTHCOMING PROVIDED THERE WAS A

DEMOCRATIC EVOLUTION. ON THE OTHER HAND THEY THOUGHT
IT NOT BEFITTING THE EEC TO HELP ANY KIND OF DICTATOR-
SHIP ON EUROPEAN SOIL.
HILLENBRAND

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